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Corp report

Magna Electronics Corporation Limited
Annual Report 1972

MAGNA ELECTRONICS CORPORATION LIMITED

Directors:	Helmut Hofmann Murray G. Kingsburgh J. Alex Langford, Q.C. Burton Pabst Donald Resnick William S. Storey Frank Stronach
Officers:	Frank Stronach, CHAIRMAN OF THE BOARD Burton Pabst, PRESIDENT Helmut Hofmann, EXECUTIVE VICE-PRESIDENT Murray G. Kingsburgh, VICE-PRESIDENT FINANCE AND SECRETARY
Auditors:	Clarkson, Gordon & Co., *Toronto*
Solicitors:	Miller, Thomson, Sedgewick, Lewis & Healey, *Toronto*
Registrars and Transfer Agents:	The Canada Trust Company, *Toronto*
Bankers:	The Royal Bank of Canada, *Toronto* The Bank of Nova Scotia, *Toronto*
Head Office:	1480 Birchmount Rd., Scarborough 731, Ontario

MAGNA ELECTRONICS CORPORATION LIMITED

HIGHLIGHTS

	Year Ended July 31, 1972	Year Ended July 31, 1971
Sales	$12,962,720	$10,399,808
Profit before the following items	$ 1,458,038	$ 825,948
Depreciation	$ 401,090	$ 461,969
Interest on long term debt	146,485	153,305
Income taxes	424,000	109,600
Minority interest	54,561	58,311
	$ 1,026,136	$ 783,185
Profit before extraordinary items	$ 431,902	$ 42,763
Profit after extraordinary items	$ 431,902	$ (183,552)
Shares outstanding—common	551,000	551,000
—preference	1,639	1,694
Earnings per share		
—before extraordinary items	76.4¢	5.9¢
—after extraordinary items	76.4¢	(36.0¢)
Dividends paid		
—common	10¢	10¢
—preference	$6.50	$6.50
Working capital	$ 1,176,574	$ 1,294,484

To the Shareholders:

We are pleased to report that consolidated sales and earnings improved substantially during the year ended July 31, 1972. We attribute the increase in sales (from $10.4 million to $12.9 million) to the automotive side of the Company's business. The substantial increase in profit (from 5.9 cents to 76.4 cents per share) is attributed both to the increase in automotive sales and also to the reorganization described in detail in the last Annual Report. (Last year extraordinary losses reduced the narrow profit margin to a final loss figure of 36.0 cents per share. There were no extraordinary items this year).

During the year, your Company expanded its automotive divisions in order to grow beyond the production of exterior and interior trim parts. In addition to trim parts, we produced and sold oil strainers, motor mounting brackets, instrument panels and bumper guards. During 1972 our engineering and development facility was increased to develop new products. One immediate result will be our capacity in 1973 to produce automotive pulleys.

Based on past performance, your Company has been able to obtain a considerable increase in sales for the 1973 automotive original-equipment model year. In order to facilitate these requirements, the production facilities were expanded in two ways. We organized a production facility in the mid-western United States and are pleased to report that this plant is currently producing 1973 parts. In addition, on August 1, 1972, we acquired Vernomatic Limited in order to obtain a production facility which could immediately relieve excess pressure on 1973 automotive production.

In order to capitalize on your Company's knowledge in the production of automotive parts, management has been of the opinion that for both diversification and profitability, expansion should be made into the automotive after-market. During the year two opportunities arose to move in this direction. We acquired Nack Industries Company Limited, a producer of mufflers for the automotive after-market, and since acquisition we have been in the process of doubling its production facilities. In addition, we have organized another production facility to produce a combination heater and air conditioner motor for the after-market. We are commencing motor sales during the second quarter of 1973. In connection with this field, we have organized a separate sales unit which will be responsible for obtaining new business for the after-market products.

The increase in automotive sales and the expansion in product line involves and will continue to involve heavy cash requirements for new capital investment. Despite these requirements, your Company expects to maintain adequate working capital without the need to seek new financing (otherwise than through expansions in ordinary lines of bank credit).

The outlook in your Company's other operations remains favourable, particularly in terms of profitability. The Electronics Division, engaged in the defence and aerospace industries, has in the last few years incurred heavy losses until reorganized in 1971 and 1972. The reorganization eliminated the losses in 1972 and the division should return a reasonable profit in 1973. A $700,000 contract to produce antennae units for military use, plus a continued increase for producing washroom equipment should result in a profitable 1973 year for the Verral Division. The current backlog of orders on hand at Unimade Industries Division indicates that these operations, engaged in structural steel fabrication for the construction industry, should make a satisfactory contribution to profits for 1973.

Your Board of Directors is requesting at the annual meeting to change the name of your Company from Magna Electronics Corporation Limited to Magna International Inc. This name change reflects the fact that the nature of your Company's business has changed over the past few years and the fact that your Company has expanded its production facilities outside Canada.

At this date having regard to orders on hand and the promise of new markets and new products, your Company is in a stronger position than ever before. We look forward to increased sales and earnings in 1973. Our present position is the result of creative, intelligent, hard work on the part of a great many employees. We extend to them our warm appreciation. Together we look forward to a great future.

On Behalf of the Board,

Frank Stronach
Chairman

Burton V. Pabst
President

October 30, 1972

MAGNA ELECTRONICS CORPORATION LIMITED

(Incorporated under the laws of Ontario)
and its subsidiary companies

CONSOLIDATED BALANCE SHEET *July 31, 1972*

(with comparative figures at July 31, 1971)

ASSETS

	1972	1971
Current assets:		
Cash and short-term deposits	$ 68,662	$ 451,163
Accounts receivable	1,888,347	1,077,681
Inventories, valued at the lower of cost or net realizable value	1,666,331	1,244,177
Prepaid expenses	108,718	91,111
Income taxes recoverable		125,806
Total current assets	3,732,058	2,989,938
Investments, at cost:		
Mortgages receivable	61,954	138,022
Fixed assets, at cost (note 6):		
Land	168,205	170,076
Buildings	1,096,422	1,001,467
Machinery and equipment	4,433,993	3,981,990
	5,698,620	5,153,533
Less accumulated depreciation	2,579,851	2,373,700
	3,118,769	2,779,833
Other assets:		
Excess of purchase price of interests in subsidiary companies over fair value of underlying net tangible assets	2,244,878	1,936,202
Debenture issue expense at amortized cost	58,622	64,711
	2,303,500	2,000,913
	$9,216,281	$7,908,706

AUDITORS' REPORT

To the Shareholders of
Magna Electronics Corporation Limited:

We have examined the consolidated balance sheet of Magna Electronics Corporation Limited and its subsidiaries as at July 31, 1972 and the consolidated statements of profit and loss and earned surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies as at July 31, 1972, the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
October 19, 1972.

CLARKSON, GORDON & CO.
Chartered Accountants

LIABILITIES

	1972	1971
Current liabilities:		
Bank indebtedness (secured)	$ 490,758	$ 210,000
Accounts payable and accrued charges	1,708,496	1,209,230
Income taxes payable	13,235	
Long-term debt due within one year	342,995	225,909
Excess of progress billing over costs of uncompleted contracts		50,315
Total current liabilities	2,555,484	1,695,454
Deferred income taxes	90,000	118,000
Long-term debt (note 1):		
6½% convertible sinking fund debentures due December 1, 1987	1,755,000	1,825,000
Capital assistance grants	122,637	253,515
Mortgages payable (secured by land and buildings of subsidiary companies)	215,915	117,131
Notes payable (secured by certain machinery and equipment)	322,132	155,774
Industrial Development Bank loans	37,255	58,133
Non-interest bearing notes	347,900	
	2,800,839	2,409,553
Less amounts due within one year included with current liabilities	342,995	225,909
	2,457,844	2,183,644
Minority interest in subsidiary companies	141,759	301,706
Shareholders' equity (notes 2 and 3):		
Capital—		
Authorized:		
9,139 6½% cumulative sinking fund preference shares with a par value of $100 each, redeemable at $105		
1,000,000 common shares without par value		
Issued:		
1,639 preference shares	163,900	169,400
551,000 common shares	2,468,705	2,468,705
Contributed surplus (note 2)	9,326	8,501
Earned surplus	1,329,263	963,296
	3,971,194	3,609,902
	$9,216,281	$7,908,706

On behalf of the Board:

Burton Pabst, Director

Donald Resnick, Director

(See attached notes)

MAGNA ELECTRONICS CORPORATION LIMITED

and its subsidiary companies

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

YEAR ENDED JULY 31, 1972

(with comparative figures for 1971)

	1972	1971
Sales	$12,962,720	$10,399,808
Profit (including investment income of $13,334 in 1972 and $15,176 in 1971) before the following	$ 1,438,928	$ 825,948
Deduct:		
Depreciation	401,090	461,969
Interest on long-term debt (including amortization of debenture issue expense)	146,485	153,305
Gain on retirement of sinking fund debentures	(19,110)	
	528,465	615,274
Profit before income taxes, minority interest and extraordinary items	910,463	210,674
Income taxes	424,000	109,600
Profit before minority interest and extraordinary items	486,463	101,074
Minority interest	54,561	58,311
Profit from operations before extraordinary items	431,902	42,763
Extraordinary item:		
Loss on disposal of fixed assets and other costs relating to the reduction in operations of certain divisions		226,315
Net profit (loss) for the year	431,902	(183,552)
Earned surplus, beginning of year	963,296	1,212,069
	1,395,198	1,028,517
Deduct dividends:		
Preference shares	10,833	11,168
Common shares	55,102	54,053
	65,935	65,221
Earned surplus, end of year	$ 1,329,263	$ 963,296
Earnings per share:*		
Net profit before extraordinary items	76.4¢	5.9¢
Net profit (loss) for the year	76.4¢	(36.0¢)

*The conversion of the 6½% sinking fund debentures, the exercise of the stock options and the acquisition of Unimade Industries Limited referred to in note 3 would not result in any material dilution of earnings per share.

(See attached notes)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JULY 31, 1972

(with comparative figures for 1971)

	1972	1971
Source of funds:		
Net profit (loss) for the year	$ 431,902	$ (183,552)
Charges (credits) to operations not involving an outlay (receipt) of funds:		
Depreciation	401,090	461,969
Deferred income taxes	(46,000)	(135,000)
Amortization of debenture issue expense	3,700	4,200
Depreciation charge included in the extraordinary item in net loss for the year		407,316
Funds derived from operations	790,692	554,933
Minority interest in subsidiary companies (net)	54,561	58,311
Notes payable	225,768	150,203
Mortgage payable	103,268	
Capital assistance loans		33,056
Mortgage payments received	131,068	3,000
Non-interest bearing notes	347,900	
	1,653,257	799,503
Application of funds:		
Cost of acquisitions of interest in subsidiary and other companies	641,900	366,149
Less value of common shares issued thereafter		(235,200)
	641,900	130,949
Mortgage acquired	55,000	11,023
Additions to fixed assets (net)	656,000	490,681
Decrease in long-term debt non-current portion	402,736	271,310
Dividends	65,935	65,221
Redemption of preference shares	4,675	3,220
	1,826,246	972,404
Decrease in working capital	172,989	172,901
Working capital, beginning of year	1,294,484	1,425,755
	1,121,495	1,252,854
Working capital of subsidiaries at dates of acquisition	55,079	41,630
Working capital, end of year	$ 1,176,574	$ 1,294,484

(See attached notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1972

1. Long-term debt

(a) The 6½% subordinated, sinking fund debentures, maturing $75,000 annually with the balance due in 1987, are convertible into common shares at the holders' option on or before December 1, 1977 at the rate of 60.1779 common shares for each $1,000 debenture.

(b) Required payments during the next five fiscal years are as follows:

1973—$342,995; 1974—$310,793; 1975—$261,456; 1976—$185,672; 1977—$126,930.

(c) In prior years, the company received capital assistance grants from the Government of Canada which require repayment of one half of the grants without interest, in equal amounts over five years. Accordingly, 50% of the grants received have been recorded as a liability and 50% have been applied to reduce the carrying cost of machinery and equipment acquired out of the grant funds. Legal title to this machinery and equipment is vested in the Government until the liability to repay the grant is discharged.

2. Preference shares

(a) During the period the company redeemed 55 preference shares at a price of $4,675. The discount of $825 realized on redemption has been included with contributed surplus.

(b) Under the conditions attaching to the preference shares the company is required to establish a sinking fund on or before January 1 of each year for redemption of preference shares of an amount equal to the greater of:

(i) 3% of the consolidated net profit for the preceding fiscal period after deducting dividends on preference shares, or,

(ii) 2% of the par value of the issued and outstanding preference shares at the end of the preceding fiscal period.

3. Common shares

At July 31, 1972 a total of 155,859 authorized and unissued common shares are reserved for the following:

(i) The conversion of 6½% sinking fund debentures into 109,824 common shares;

(ii) Stock options granted to an employee in respect of 1,500 common shares at $7.43 per share exercisable at the rate of 300 shares per annum;

(iii) The issue of 18,500 common shares which are reserved for further options to employees;

(iv) The issue of 26,035 common shares as part of the maximum consideration for the acquisition of Unimade Industries Limited. The number of common shares to be issued is subject to increase at the rate of one common share for each of $8.50 by which the aggregate pre-tax profit of Unimade for the three year period ending on July 31, 1973 is more than $250,000 to a maximum of 26,035 additional common shares. For purposes of this calculation pre-tax profits for the two years ended July 31, 1972 totalled $109,739.

4. Remuneration of directors and senior officers

During the year remuneration paid to directors and senior officers of the company totalled $223,000.

5. Exchange

Assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange in effect as at July 31, 1972.

6. Subsequent events

(a) On August 1, 1972, the company acquired all of the outstanding common shares of Vernomatic Limited for $93,100 cash, $50,000 payable August 1, 1972 and the balance payable on or before August 1, 1973.

(b) The company has agreed to sell certain of its land and buildings at amounts in excess of book value. These properties will be leased back from the purchasers.